



Department of the Treasury
Internal Revenue Service
1100 Commerce Street
Dallas, TX 75242

Release Number: **201329025**
Release Date: 7/19/2013
Date: April 1, 2013

501-07.00

LEGEND

ORG - Organization name

XX - Date Address - address

ORG
ADDRESS

Form:
Tax Year(s) Ended:
Person to Contract:
Contact Telephone Number:

CERTIFIED MAIL

Dear :

We have completed our examination of your Form 990 for the periods ended December 31, 20XX. It has been determined that your exempt status should be revoked.

The previous report of examination issued on November 28, 20XX, states the basis for the revocation. You have concurred with our determination by signing Form 6018-A, Consent to Proposed Adverse Action, on December 17, 20XX. A copy of which is enclosed. Accordingly, your exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code has been revoked effective January 1, 20XX.

You are required to file Federal income tax return, Form 1120, with the Internal Revenue Service Center. When filing future returns, remember the Internal Revenue Code section 277 may limit your deductions.

You also have the right to contact the Office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access you tax information and can help you get answers. You can call 1-877-777-4778, and ask for the Taxpayer Advocate assistance or you can contact the Advocate from the site where this issue was determined by writing to:

Boise Office
550 West Fort Street
MS 1005
Boise, ID 83724
(208) 389-2827 x276

Taxpayer Advocate assistance cannot be used as substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determination, nor extend the time fixed by law that you have to file a petition in Court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. If we do not hear from you within 30 days of the date of this letter, this determination will be considered final and no further action will be required.

Please keep a copy of this report with your permanent records.

If you have any questions regarding this matter, please contact the person whose name and telephone number are shown above.

Sincerely yours,

Nanette M. Downing
Director, EO Examination

Enclosure(s):
Publication 892



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities Division
915 Second Avenue, M/S W540
Seattle, WA 98174

ORG
ADDRESS

Date:
November 28, 2012
Taxpayer Identification Number:

Form:

Filing period(s) ended:

Person to contact / ID number:

Contact numbers:

Manager's name / ID number:

Manager's contact number:

Dear :

Your organization has been selected for an audit for the year(s) indicated above. The Internal Revenue Service (IRS) routinely audits exempt organizations to ensure compliance with federal tax requirements.

Information Document Request

Enclosed is a Form 4564, *Information Document Request*, listing the items we need to conduct the audit. Please mail this information to me at the address shown above by the date indicated on Form 4564. Original documents aren't required, but please ensure all copies are legible.

If you're unable to respond to the request by the due date, please contact me as soon as possible. My phone number is provided above.

Your Rights as a Taxpayer

Also enclosed is Publication 1, *Your Rights as a Taxpayer*. This publication includes information on the audit process, as well as third-party contacts. Please take a few minutes to read it.

Audit Process

I'll review the information you provide. As the audit proceeds, I may request additional records.

After completing my review, I'll discuss my findings with you and explain whether your tax-exempt status or tax liability is affected. In many cases there are no proposed changes. If I do propose changes, you'll have time to review my findings. I'll provide you with a copy of the appeal procedures.

If you agree to the changes, you'll sign an agreement form. If you don't agree, you may ask for a conference with my manager or an IRS Appeals official.

Representation

You must file a power of attorney with the IRS if you would like us to discuss the audit with anyone other than an officer of your organization. You can use Form 2848, *Power of Attorney and Declaration of Representative*, for this purpose. If you don't provide a power of attorney, your representative won't be permitted to receive or discuss confidential information.

Communication

To promote open communication, please call me to discuss any potential issues and keep me informed of unavoidable delays. I'll do likewise. The audit will proceed faster if we address questions and concerns and provide information to each other in a timely manner. You may also speak to my manager at any time. My manager's name and phone number are also shown in the heading of this letter.

Thank you for your cooperation in this matter.

Sincerely,

Enclosures:

Information Document Request

Publication 1

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 12/31/20XX & 20XX	

LEGEND

ORG - Organization name XX - Date EIN - ein City - city State - state
 website - website RA-1 - 1st RA Co-1 & CO-2 - 1st & 2nd COMPANIES

ISSUE:

Is an organization recognized as exempt under section 501(c)(7) of the Internal Revenue Code (IRC) as a social club entitled to continued exemption if the organization's gross receipts exceed the 15/35% rule as indicated in Revenue Procedure 71-17 and as amended by Public Law 94-568?

FACTS:

The ORG ("ORG") is an organization recognized on September 19XX by the IRS as a social club under section 501(c)(7) of the Internal Revenue Code (IRC), that is located in City, State.

ORG filed its Articles of Incorporation with the State of State on May 19, 19XX. The purpose(s) of ORG as enumerated in its articles are as follows:

- *"to encourage the promotion and establishment of local clubs to improve, maintain and conduct club and recreational facilities and a golfing course for the members and their friends, under such terms and conditions and subject to such rules and regulations as the directors may from time to time determine."*
- *And "to invest and reinvest surplus funds in such securities and properties as the directors may from time to time determine".*
- *And "to have power to buy, sell, hold, acquire, own, mortgage, lease, exchange, trade and acquire title and hold title to personal or real property and leaseholds..."*
- *And "to furnish and provide, and to contract with others for the furnishing and providing of entertainment, diet, food, beverages and refreshment, required or requested by its members, and to do and perform such powers and activities for the benefit of its members without pecuniary profit"*

The ORG bylaws state that the Board of Directors manage and controls the business affairs and operation of the corporation, including the purchase, leasing, management of all property to be held by the corporation. The Board of Directors consists of seven governing members. Officers of the club shall consist of a President, Vice-president, a Secretary and Treasurer. The Board of Directors elects all officers. The President and Vice-president shall be a member of the Board of Directors.

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Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		12/31/20XX & 20XX

The bylaws also state that the Board of Directors determines the eligibility of membership. To be a member of the club, a member needs to have a membership certificate. The Board of Directors issues the membership certificate, accompanied by the secretary/treasurer signature. A membership card is issued allowing members to reciprocal rights to facilities of other private golf and country clubs.

The ORG state that it has the following membership types:

- 1) Membership dues
- 2) Resident single dues
- 3) Resident couple dues
- 4) Non-resident single dues
- 5) Non-resident couple dues
- 6) Student
- 7) Junior

The examining agent observed that the resident/non-resident, and student/junior dues paying "members" are not actual members of the ORG because they do not possess the membership certificate. The POA stated that the ORG has about members, including dues paying members (active, inactive, and unknown).

A non-resident is defined by ORG as living beyond the 25 miles radius from the clubhouse.

The ORG's membership/dues fees are as follows:

	<u>20XX</u>	<u>20XX</u>
Resident single dues	\$\$	\$\$
Resident couple dues	\$\$	\$\$
Non-Resident single dues	\$\$	\$\$
Non-Resident couple dues	\$\$	\$\$
Student dues (age 18 to 21)	\$\$	\$\$
Junior dues (age under 18)	\$\$	\$\$
Membership certificate	\$\$	\$\$
Business pass (2 players)	\$\$	\$\$

Juniors play free with a dues paying parent and the membership certificate can be paid over a four (4) year period at \$ per year. Business passes are nonmember dues.

Other fees charged by the club:

	<u>20XX</u>	<u>20XX</u>
Handicap	\$\$	\$\$
Locker	\$\$	\$\$

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Cart shed space	\$\$	\$\$	
Cart shed space for non-dues			
Payers	\$\$	\$\$	
Green fees:			
• 9 holes	\$\$	\$\$	
• 18 holes	\$\$	\$\$	
• Juniors 17 & under(all day)	\$\$		\$\$

Club activities:

The ORG facility includes a 9 hole golf course with a clubhouse. The ORG is open from April 1 to September.1... The ORG's web site address is website. The ORG activities includes golf tournaments, golf clinics, annual dinners, Men's and Women's Association meetings, Men's League golf tournaments, Ladies League golf tournaments, class reunions, wedding receptions, picnics, birthday parties, etc. The events are open to members and non-members. The ORG has a "public welcome" sign along the highway and in front of the clubhouse.

The ORG offers golf carts and club for rent. The ORG clubhouse consists of a pro shop and restaurant. RA-1 of RA-1, owns the pro shop. The pro shop sells golf merchandise and non-golf merchandises, green fees, and driving range cart rental. RA-1, PGA golf professional, also offers private golf lessons to members and nonmembers. Additionally, he conducts golf clinics for member and nonmembers.

The restaurant sells food/beverages and liquor. The ORG has a license to sell liquor on and off clubhouse premises. The restaurant is open for lunch and dinners. The restaurant menu includes salads, chicken wings, burgers, etc. The ORG advertised that its pro shop and restaurant is open to the public. The ORG also advertised that the clubhouse is open for group and private party reservations. The clubhouse events include weddings, class reunions, birthday parties, and other private parties. The ORG charge a rental fee of \$. The clubhouse also offers nightly happy hour from 5:30-6:30 pm.

The ORG sells liquor off club premise. Every year the ORG participates at the 4th of July beer stand (border days beer stand).

Form 990 return:

The ORG reported its activities as: *"The operation and maintenance of a public golf course located on the City of City land. A private Country Club, but open to the public without restriction"*

Within Form 990, Part V, question 3a and 3b, ORG answered "no" concerning having no unrelated business gross income of \$ or more.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 12/31/20XX & 20XX

Within Form 990, Part V, question 10a and 10b, ORG answered "no" concerning having facility used by the public.

The 20XX Form 990 reported ORG income source as follows:

Contributions, gifts, grants:
 Membership dues
 other contributions/grants:

Program service revenue:
 proshop/restaurant
 green fees
 4th of July beer stand
 cart path maint. & locker fees

Gross rents:
 Less rental expenses:

investment income:

Other revenue _____

TOTAL REVENUE _____

The ORG reported its expenses as follows:

Compensation of officers,
 etc.:
 Other salaries and wages:
 Payroll taxes:
 Advertising and promotions:
 Accounting fees:
 Office expenses:
 Insurance:
 Occupancy:
 Travel:
 Interest:

Other Expenses:
 telephone/internet
 restaurant/proshop
 golf course

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	12/31/20XX & 20XX	

maintenance/upkeep
 licenses/permits
 beer stand
 other expenses _____

TOTAL EXPENSES _____

During tour of facility with the POA, the examining agent observed that there were no logbook recording member and non-member entrance into the clubhouse or golf course. The golf course did not have enclosures that would keep non-members out. The examining agent also observed a sign along the street stating that the public was welcome to patronize the ORG. The clubhouse has a "public welcome" sign in front of its building. The public sign was very visible from the highway. The POA stated that ORG has not maintained records of member/nonmember participation for over 20 years.

The 20XX Form 990 reported ORG income as follows:

Contributions, gifts, grants:
 membership dues
 other contributions/grants:

Program service revenue:
 proshop/restaurant
 green fees
 4th of July beer stand
 cart path maint. & locker fees

Gross rents:
 Less rental expenses:

investment income:
 Other revenue _____

TOTAL REVENUE _____

The 20XX Form 990 reported ORG expenses source as follows:

Compensation of officers, etc.:
 Other salaries and wages:
 Payroll taxes:

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	12/31/20XX & 20XX	

Advertising and promotions:
Accounting fees:
Office expenses:
Insurance:
Occupancy:
Interest:
Depreciation, depletion, etc:

Other Expenses:
telephone/internet
restaurant/proshop
golf course maintenance/upkeep
licenses/permits
beer stand
other expenses _____

TOTAL EXPENSES _____

Form 990-T return:

The ORG has never filed Form 990-T, *Exempt Organization Business Income Tax Return*.

Financial Records:

In the years under examination, the POA did not know the number of participants in any of the events. The POA stated that the ORG did not charge different rates for events for members or non-members.

In 20XX, the POA stated that the club reported total revenues of \$. The revenues consisted of the following:

Membership income:

Membership \$
Dues (yearly) \$
 \$

Other income:

1) Proshop/restaurant

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ORG	EIN	12/31/20XX & 20XX	

Pop & snacks	\$
Mixed drinks	\$
Food	\$
Driving range	\$
Cart rental	\$
Proshop sales	\$
Beer sales	\$
Total	\$

2) Greens fee:	\$
3) Border's Days Beer Stand:	\$
4) Cart storage	\$
5) Clubhouse rental	\$
6) Handicap fee	\$
7) Locker fee	\$

In 20XX, the POA stated that the club reported total revenues of \$. The revenues consisted of the following:

Membership income:

Membership	\$
Dues (yearly)	\$
	\$

Other income:

1) Proshop/restaurant

Over & short	\$
Pop & snacks	\$
Mixed drinks	\$
Food	\$
Driving range	\$
Cart rental	\$

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	12/31/20XX & 20XX	

Proshop sales \$
 Beer sales \$
 Total \$

- 2) Greens fee: \$
- 3) Border's Days Beer Stand: \$
- 4) Cart storage \$
- 5) Clubhouse rental \$
- 6) Handicap fee \$
- 7) Locker fee \$

The POA stated that the ORG had no record of member sales or non-member sales.

The ORG rent out its beer and wine license to other clubs, i.e., CO-2, at a rate of \$ per event.

The ORG did not maintain records of member or nonmember sales at the pro shop and restaurant or at any other events held by ORG.

Related entities:

The ORG hired a PGA golf pro, RA-1. RA-1 works the pro-shop and sometimes at the restaurant. RA-1's business is called RA-1. RA-1 was also an employee of ORG.

In 20XX, the ORG reported the pro shop sales at \$ and pro shop expenses at \$. The ORG paid RA-1 commission of \$ for his services to the ORG.

In 20XX, the ORG reported the pro-shop sales at \$ and pro-shop expenses at \$. The ORG paid RA-1 commission of \$ for his services to the ORG.

The merchandise sold at the pro shop belonged to RA-1. The ORG reported the income and expenses for the pro shop as a pass through transaction.

According to RA-1's agreement with ORG, RA-1 will be responsible for:

- Management and operation of clubhouse
- Employees of clubhouse—hours worked

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- Maintenance of rental carts and range
- Supervision and running of all club tournament play
- Rental of clubhouse for special events
- Promotion and marketing of club
- Gives monthly report to board on the above items

RA-1's monthly pay will be \$, plus commission based on the below items which is based on previous month's receipts:

- % of lesson fees
- % range fees
- % gross profit from Pro shop, which will be stocked and owned by RA-1
- % of cart rental fees
- % of green fees
- % of net profit from restaurant and bar sales
- \$\$ for each corporate pass sold
- Run weekly, one hour clinics for men, women, and youth
- Promote high school golf club

RA-1 is also paid a bonus based on the following: \$\$ if 20XX total green fees and annual dues exceed \$\$ and an additional \$\$ if total reaches \$\$.

RA-1 also charge for private golf instructions. The fees are as follows:

- 1 Lesson (45 mins.) \$
- 3 Lessons \$

The following table reported RA-1 merchandise sale at the pro shop. The sales were made via cash or credit card.

Month	Sale amount	Total sale with tax
April		
May		
June		
July		
August		
September		
October		

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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LAW:

Section 501(c)(7) of the Code provides for the exemption from federal income tax of clubs organized and operated for pleasure, recreation, and other nonprofitable purposes, substantially all the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations states that, in general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Section 1.501(c)(7)-1(b) of the regulations provides that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not tax exempt. Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes.

Revenue Ruling 58-589, 19XX-2 CB 266, establishes that a club is organized and operated for pleasure, recreation, and other nonprofitable purposes, "there must be an established membership of individuals, personal contacts and fellowship. A commingling of the members must play a material part in the life of the organization." It further states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, etc., may not be considered organized and operated exclusively for pleasure, recreation, or social purposes. However, a social club will not be denied exemption merely because it receives income from the general public, that is, persons other than members and their bona fide guests, or because the general public on occasion is permitted to participate in its affairs, provided such participation is incidental to and in furtherance of its general club purposes. This is generally true where the receipts from nonmembers are no more than enough to pay their share of the expenses.

Revenue Ruling 69-219, 1969-1 CB 153, held that a social club that regularly holds its golf course open to the general public, charging established green fees used for maintenance and improvement of club facilities, is not exempt under section 501(c)(7) of the Code. The club was organized for social and recreational purposes. Its principal function is to operate a golf course for its members, who pay annual dues. However, the club regularly holds the golf course open to the general public for use upon the payment of an established green fee. Green fees from the general public have constituted a significant portion of the club's total receipts from all sources for each of the past five years. The income from this source is used to help defray the expense of maintaining

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Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 12/31/20XX & 20XX

and improving the golf course.

Revenue Ruling 65-63, 1965-1 CB 240, states that a nonprofit organization which conducts sports car events for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising. It was held that this organization does not qualify for exemption as a club organized and operated exclusively for pleasure, recreation and other non-profitable purposes under section 501(c)(7) to substantial public patronage.

Under situation 2 in Revenue Ruling 74-425, 1974-2 C.B. 373, a Calcutta conducted by a nonprofit social club exempt from income tax under § 501(a) of the Code for the pleasure and recreation of club members and guests only was held not to be operated for profit. Although not so stated, the "guests" who participated were guests of the individual members who paid for all the club charges relating to those guests. The Revenue Ruling concluded the guests would come under § 501(c)(7) and 512(a)(3).

Revenue Ruling 79-145, 1979-1 CB 360, (Jan. 01, 1979) states that a guest of a nonprofit social club is an individual who is a guest of a member of the club and who ordinarily does not reimburse the member for the guest's expenses. On the other hand, amounts paid to a social club by visiting members of another social club are amounts paid by nonmembers, even though both clubs are of like nature and the amounts paid are for goods, facilities, or services provided by such social club under a reciprocal arrangement with such other social club. Accordingly, in this case, the members of the other social clubs that attend the Calcutta are not guests of the members of the host club, but are members of the general public within the meaning of Rev. Proc. 71-17.

Revenue Procedure 71-17, 1971-1 C.B. 683, provides guidelines for determining the effect of gross receipts derived from nonmember use of a social club's facilities on the club's exemption under section 501(c)(7) of the Code. Rev. Proc. 71-17 states that where a club makes its facilities available to the general public to a substantial degree, the club is not operated exclusively for pleasure, recreation, or other nonprofitable purposes. The term "general public," as used in that Revenue Procedure, means persons other than members of a club, their dependents, or guests.

Assumption as to status of non-members:

1. Where a group of eight or fewer individuals, at least one of whom is a member, uses club facilities, it will be assumed for audit purposes that the nonmembers are the guests of the member, provided payment for such use is received by the club directly from the member or the member's employer.
2. Where 75 percent or more of a group using club facilities are members, it will likewise be assumed for audit purposes that the nonmembers in the group are guests of members, provided

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payment for such use is received by the club directly from one or more of the members or the member's employer.

3. Payment by a member's employer will be assumed to be for a use that serves a direct business objective of the employee-member.

4. In all other situations, a host/guest relationship will not be assumed but must be substantiated.

The record keeping requirements are discussed below:

Section 4: Recordkeeping Requirements:

.01 With respect to the situation described in section 3.03 1, above, the records specified in section 4.03, below, need not be maintained by the club. However, the club must maintain adequate records to substantiate that the group was comprised of eight or fewer individuals, that at least one of them was a member, and that payment was received by the club directly from members or their employers. Where payment is made directly to the club by the member, the club is under no obligation to inquire about reimbursement.

.02 With respect to the situation described in section 3.03 2, above, the records specified in section 4.03, below, need not be maintained by the club. However, the club must maintain adequate records to substantiate that 75 percent or more of the persons in the group were, in fact, members of the club at the time of such use and that payment was received by the club directly from members or their employers. Where payment is made directly to the club by the member, the club is under no obligation to inquire about reimbursement.

.03 With respect to all other occasions involving use by nonmembers, the club must maintain books and records of each such use and the amount derived there from. This requirement applies even though the member pays initially for such use. In each instance the record must contain the following information:

1. The date;
2. The total number in the party;
3. The number of nonmembers in the party;
4. The total charges;
5. The charges attributable to nonmembers;
6. The charges paid by nonmembers;
7. Where a member pays all or part of the charges attributable to nonmembers, a statement signed by the member indicating whether he has been or will be reimbursed for such nonmember use and, if so, the amount of the reimbursement:

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8. Where the member's employer reimburses the member or makes direct payment to the club for the charges attributable to nonmembers, a statement signed by the member indicating the name of his employer; the amount of the payment attributable to the nonmember use; the nonmember's name and business or other relationship to the member; and the business, personal, or social purpose of the member served by the nonmember use. (The use of club facilities must serve some personal or social purpose of the employee-member or some direct business objective of the employee-member; the mere use of club facilities for the accommodation of the member's employer does not serve a business, personal, or social purpose of the member.) If a large number of nonmembers are involved and they are readily identifiable as a particular class of individuals, the member may record such class, rather than all of the names; and

9. Where a nonmember, other than the employer of the member, makes payment to the club or reimburses a member and a claim is made that the amount was paid gratuitously for the benefit of a member, a statement signed by the member indicating the donor's name and relationship to the member, and containing information to substantiate the gratuitous nature of the payment or reimbursement.

Public Law 94-568 (1976) amended section 501(c)(7) of the Code to allow social clubs to receive some outside income without jeopardizing their exempt status. Specifically, the Senate Finance Committee Report states a social club is permitted to receive up to 35% of its gross receipts, including investment income, from sources outside of its membership without losing its exempt status. However, within this 35% limit, not more than 15% of gross receipts should be derived from the use of a social club's facilities or services by the general public.

TAXPAYER'S POSITION:

GOVERNMENT'S POSITION:

Based on information provided during the examination, the ORG does not meet the requirements of section 501(c)(7) with respect to Revenue Procedure 71-17 as subsequently amended by Public Law 94-568. The ORG received a substantial part of its income from the use of their facilities and services by the general public.

The ORG books and records did not reflect a breakdown of revenue received from members and nonmembers participation at the clubhouse and golf course, as well as, other functions/events of the ORG.

The analysis of income and expenses revealed that the ORG did not keep records as required by Rev. Proc. 71-17 of member/nonmember participation for all of its functions/events. Accordingly, the assumption was that all income was derived from nonmember participation.

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Public Law 94-568 amended section 501(c)(7) of the Code to allow social clubs to received some outside income without jeopardizing their exempt status. A social club is permitted to receive up to 35% of its gross receipts, including investment income, from sources outside of its membership without losing its exempt status. However, within this 35% limit, not more than 15% of gross receipts should be derived from the use of a social club's facilities or services by the general public.

The table below shows the breakdown of member and nonmember receipts for purposes of the gross receipt tests.

	20XX	20XX
Total receipts:	\$	\$
investment income	\$ -	\$ -
Less adjustments:		
dues	\$	
initiation fees	\$	
Total receipts	\$	
nonmember club usage	\$	
nonmember income %	%	%

The ORG are using income from nonmembers to support the activities of its members.

CONCLUSION:

The ORG is an organization whose activities do not fall within the scope of IRC section 501(c)(7) and its tax-exempt status should be revoked.

Substantial income for the ORG is generated by permitting the club's facilities to be used by members of the general public. Thus, the ORG is not operated exclusively for recreation, pleasure, charitable and other nonprofit purposes and the earnings of the organization inured to the benefit of private individuals. There were excess nonmember revenues that exceeded the 15/35% limitation as per Rev. Proc. 71-17 and as amended by Public Law 94-568.

Additionally, selling liquor offsite is a prohibited activity under section 501(c)(7).

Accordingly, the ORG should be revoked effective January 1, 20XX.

The ORG should be a taxable membership organization within the meaning of section 277 of the Code and should file Form 1120 returns for the tax periods after December 31, 20XX.